

AMERICAN HEALTHGUARD CORPORATION
NOTES TO FINANCIAL STATEMENTS
As of August 31, 2003

Note 1: General information

The corporation is in the business of providing a dental health care plan. It has contracted with established members of the dental profession to provide health plan members with quality dental care and treatment. Each subscriber receives care in a convenient dental office by his own personal plan dentist. This service offers the economics of group health care and individual attention of a private practice.

Note 2: Note receivable-shareholder

Note receivable from David Kutner is secured by a deed of trust on real property; due on demand with interest at 12.00 per cent per annum.

Note 3: Fixed Assets

Fixed Assets are stated at cost. The Modified Asset Cost Recovery System is being used to allocate the cost of assets over estimated useful lives of five and seven years.

When fixed assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in income for the period. Maintenance and repairs are expensed as incurred.

Note 4: Software Development Costs

American HealthGuard Corporation is capitalizing software development costs. The software was placed in service on March 1, 2002. It is being amortized over 5 years. The amortization expense for the quarter ended 8/31/03 was \$9,018.

Note 5: Notes and contracts payable

The notes are subordinated to the State of California. The notes are convertible to paid-in-capital at the option of the stockholder.

Note payable to David Kutner is unsecured, due on demand and bears no interest	\$ 53,600
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Note payable to David Kutner is unsecured, due on demand and bears interest at 12.00% per annum	125,000
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Note payable, to David Kutner is unsecured and bears interest at 10% per annum.	40,000
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<u>TOTAL NOTES AND CONTRACTS PAYABLE</u>	<u>\$ 218,600</u>
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Note 6: Capital Stock

Authorized 10,000 shares of common stock; 400 shares issued and outstanding.

Note 7: Provision for incurred and unreported claims

No provision has been made for incurred and unreported claims since each provider is capitated at fixed rate based on the number of enrollees, not on services provided.

Note 8: Accounts and notes receivable from officers, directors, owners, or affiliates

There are no accounts or notes receivable from officers, directors, owners or affiliates, other than noted above.

Note 9: Donated materials or services

The plan has received no donated materials. All of the officers of the plan donate their services to the plan.

Note 10: Forgiven debt or obligation

No debt or obligation of the plan has been forgiven.

Note 11: Number of enrollees

The number of enrollees in the plan as of August 31, 2003 was 20,892.

Note 12: Administrative costs:

The amount of administrative costs for the period ended August 31, 2003 exceeds the stated administrative percentage for the following reasons. The plan was licensed September 30, 1984. Certain start - up and establishing costs are necessary to create the environment for building a prepaid health plan from scratch. Expenditures for printing, graphics, office supplies and equipment, among other administrative costs will be proportionately lower. The administrative costs represent 64.77 per cent of revenue obtained from subscribers and enrollees.

Note 13: Payments to non-contracting providers

No payments to non-contracting providers or reimbursements to subscriber enrollees were made during the year.

Note 14: Providers withhold, incentive withhold or risk pool

No provision has been made for provider withhold, incentive withhold or risk pool since none exist.

Note 15: Health care services

The total expenditures for health care services (capitation) as of August 31, 2003 was \$96,560.

Note 17: Income taxes

The provision for income taxes is based on income before income taxes as reported in the income statement.

Federal	\$ -0-
State	<u>800</u>
Provision for income taxes	<u><u>\$ 800</u></u>